Insurance Corporation of British Columbia

Service Plan

2006 – 2008

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Introduction

Purpose

The Insurance Corporation of British Columbia's (ICBC) 2006 – 2008 Service Plan presents an overview of the company's three-year plan to fulfill its responsibilities for providing automobile insurance, driver licensing, and vehicle licensing and registration services. In this Service Plan, ICBC sets out its performance accountability to the public by describing:

- where the company envisions itself in three years;
- what goals ICBC needs to achieve to realize this vision; and
- how ICBC defines and measures progress on achieving these goals.

In early 2007, ICBC will publish its 2006 Annual Report detailing the extent to which it has achieved the goals set out in this Service Plan. The Service Plan and Annual Report are companion documents and central to the broader accountability framework for Crown corporations.

In developing the Service Plan, ICBC has relied on guidance provided by:

- the Legislative Assembly of BC's Select Standing Committee on Crown Corporations (SSCCC) in *A Guide to Operations*, April 2003;
- the Crown Agency Secretariat's *Guidelines for Government Organizations Service Plans*, October 2005; and
- the Shareholder's Letter of Expectations between ICBC and government.

Balancing Accountability and Commercial Sensitivity

ICBC is committed to providing customers and the public with information needed to understand the company's plans and to evaluate its performance against those plans. This is fundamental to the governance of any Crown corporation.

ICBC competes with other insurance companies in the sale of optional automobile insurance products in BC, which account for over $1.3 billion in premiums and are an important component of ICBC's business. However, because of commercial concerns, this Service Plan does not provide specific information pertaining to ICBC's competitive insurance products, including competitive intelligence, performance measures and targets associated with the competitive line of business, and specific competitive business strategies.

Letter from the Chair of the Board

Chair, ICBC
Vancouver
October 2005

The Honourable John Les
Minister of Public Safety and Solicitor General
Government of British Columbia

Dear Minister,

On behalf of the Board of Directors and employees of ICBC, I am pleased to present the company's 2006 – 2008 Service Plan.

This year's Service Plan, as in previous years, documents how we will address challenge and opportunity. Since late 2002, we have embraced a sound strategic framework that has guided our work. It helped bring focus and energy to realize a significant financial turnaround. That, in turn, produced years of low and stable rates and consistently high levels of customer service, which clearly positioned ICBC as BC's auto insurer of choice.

Looking ahead, we remain committed to this proven course. We do not, however, see our business as static. On the horizon, there are exciting opportunities to improve the way we deliver value to customers. At the same time, we face significant challenges that will test the company and our team.

First, a perspective on some of our challenges. Recent actuarial information has revealed worsening bodily injury claims costs, primarily in our Basic insurance business. Put simply, claims where our customers sustain injuries are increasingly seeing higher settlement costs. These are a major part of our overall claims costs on the Basic side of our business, and require concerted efforts to ensure ICBC maintains its sound financial footing.

For this reason, we are proposing an increase in Basic rates for 2006. At the same time, ICBC will be actively exploring measures to reduce these bodily injury costs. Overall, we must continue to maintain a disciplined approach to managing costs and making investments in the business so we can sustain the hard earned gains of recent years.

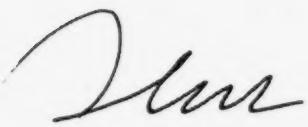
In terms of opportunity, we will build on the momentum of earlier efforts to improve both how we serve customers and the value they get from our products and services.

We regularly talk with customers, and are continuously looking for ways to better meet their needs,

whether it's hassle-free claims, providing the right coverage at the right price, or being easy to reach and do business with. That's why we have invested time and energy to improve on these and other fronts. We implemented new technology in our call centres to improve the handling of telephone claims. We are opening earlier and closing later at a number of driver services centres and claim centres. We improved our premium financing plan to better serve over 50% of our customers who finance the cost of their auto insurance. And we are working with our auto repair industry partners to improve service by simplifying our claims handling process.

But we know there's more to do, because customers have told us where they expect us to go further. In the Optional insurance business, we will continue to review our products and pricing. We will look at innovative product solutions that help customers better manage the risks that affect their premiums. We will continue our work with key business partners such as brokers and repair shops to identify ways to improve service levels. And, we will work to strengthen our service culture, to help us constantly improve how we serve our customers.

In summary, we have the right team and the right mix of strategies to continue building this organization in the years ahead. More importantly, we are focused on what matters most: delivering low and stable rates and the kind of service that British Columbians expect of their leading auto insurer.



T. Richard Turner
Chair, Board of Directors

Statement of Accountability

ICBC's 2006 – 2008 Service Plan was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency & Accountability Act*. I am accountable for the contents of the plan, including the selection of performance measures and targets and the basis on which the plan has been prepared. The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions and identified risks, as of December 31, 2005, have been considered in preparing the plan. The Board is accountable for ensuring ICBC achieves its specific objectives and measures identified in the plan and for measuring and reporting actual performance. Achievement of results may be influenced by factors, such as legislative and other external changes, which are beyond the company's control.

The performance targets in this plan have been determined based on an assessment of ICBC's operating environment, forecast conditions, risk assessment and past performance.

T. Richard Turner
Chair, Board of Directors

Overview of ICBC

ICBC is a provincial Crown corporation established in 1973 to provide universal compulsory automobile insurance (Basic insurance) to BC motorists. ICBC is the sole provider of Basic insurance in the province. Since 2003, Basic insurance rates have been regulated by the British Columbia Utilities Commission (BCUC). In addition, ICBC competes with other insurance companies in the sale of Optional automobile insurance coverages.

ICBC is one of Canada's largest property and casualty insurers with approximately $3.1 billion in annual premiums written and $8.1 billion in assets, and employs approximately 4,900 people. ICBC offers insurance products to more than 3 million policyholders through a network of over 900 brokers, government agents and appointed agents. ICBC's claims handling services process approximately 938,000 claims per year through a 24-hour telephone claims handling facility operating 7 days a week and a network of claims centres throughout BC.

ICBC invests in loss management and road safety programs to prevent crashes and automobile crime, which benefit customers by keeping insurance premiums low and stable.

In addition to its Basic insurance and Optional insurance lines of business, ICBC provides vehicle and driver licensing services, vehicle registration services and fines collection on behalf of the provincial government. ICBC refers to the provision of these services as its Non-insurance line of business.

The primary function of insurance is to spread risk through the collection of premiums from many to pay for the losses of a few. Premiums, therefore, are designed to reflect the risk of loss. In 2005, ICBC earned approximately $3.1 billion in premiums for both Basic and Optional insurance from more than 3.0 million annualized policies sold. In the same year, the company incurred approximately $2.5 billion[1] in insurance claims costs from almost 938,000 claims processed through ICBC's 24-hour telephone claims handling facility, province-wide network of over 40 claims service locations, and corporate website, www.icbc.com.

Comparable to vehicle owners in other provinces, BC residents are legally required to purchase a Basic package of insurance. For the Basic product, private passenger and commercial vehicle owners (excluding buses, taxis, limousines, and extra-provincial trucking and transport vehicles) are provided with $200,000 in third-party legal liability protection, $150,000 in no-fault accident benefits, and $1 million of underinsured motorist protection. In addition to providing Basic insurance, ICBC competes with private insurers for the provision of Optional coverage, including extended third party legal liability, collision, comprehensive, vehicle storage, and others. The figure on the following page illustrates the full spectrum of ICBC's Basic and Optional insurance products.

The automobile insurance product in BC is based on a full tort scheme, which means injured parties are entitled to take the at-fault party to court for the full amount of his or her damages. In addition, the insured injured party has access to a maximum of $150,000 for medical and rehabilitation expenses and up to $300 per week for wage loss through his or her Basic insurance from ICBC. This differs from other jurisdic-

[1] As ICBC's 2005 financial statements are not finalized as of December 31, 2005, outlooks for 2005 have been provided. These are the best outlooks available at the time of preparing the Service Plan. For final numbers, please consult ICBC's 2005 Annual Report once it is available. Data for the financial information contained in this plan are from ICBC's corporate financial systems, which are audited annually by the Corporation's external auditors.

Figure 1. *Basic vs. Optional Insurance*

Basic Coverage

The minimum amount of insurance any vehicle must carry to legally operate in BC:

- Third-Party Legal Liability
- Accident Benefits
- Underinsured Motorist Protection
- Protection Against Hit-and-Run and Underinsured Motorists
- Inverse Liability Coverage

Optional Coverage

Additional coverage to meet the customer needs:

Vehicle

- Collision
- Comprehensive
- Specified Perils
- Vehicle in Storage
- Limited Depreciation Coverage
- Replacement Cost Coverage
- Collector & Vintage Vehicles

Equipment

- Motor Vehicle Equipment
- Excess Special Equipment
- Motor Home Contents

Individual

- Extended Third-Party Liability
- Excess Underinsured Motorist Protection
- Loss of Use
- Vehicle Travel Protection
- RoadStar / Roadside Plus

tions with variants of no-fault automobile insurance. In those provinces, compensation can be based on predetermined benefit schedules, threshold schemes, and/or caps or deductibles on pain and suffering awards. Further, there may be limited or no ability to sue for additional damages.

Inter-provincial comparisons are difficult because tort-based and no-fault systems of insurance produce vastly different cost structures and benefit levels. Claims costs in a tort environment are primarily driven by litigation costs, injury severity, and legal precedents, which add a level of uncertainty and unpredictability to costs. In a no-fault system, costs are driven predominantly by wage replacement and no-fault medical and rehabilitation costs.

Loss Management and Road Safety

ICBC invests customers' premiums in loss management and road safety initiatives that provide a direct benefit to its customers through reduced claims costs that ultimately keep premiums low and stable. ICBC works with a network of partners across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General, the enforcement community, the Ministry of Attorney General, the Ministry of Transportation, brokers, municipalities, community groups, and volunteers. In 2005, ICBC invested approximately $47 million on loss management and road safety initiatives.

Non-Insurance Services

Unlike traditional property and casualty (P&C) insurers, ICBC provides a number of Non-insurance services on behalf of government. These services include vehicle and driver licensing services, vehicle registration, government debt collection and funding for commercial vehicle compliance.[2]

[2] As part of the implementation of ICBC's Core Services Review decisions, the commercial vehicle compliance and motor carrier functions were transferred to the provincial government in 2003. ICBC will provide annual funding of $24.7 million to government for the management of these functions up to and including March 31, 2006.

In 2003, a service agreement between ICBC and government was established to delineate services and their associated costs, thereby creating a stronger foundation for this partnership. The costs of these Non-insurance expenses are funded through ICBC's Basic insurance premiums.

Investments

Investment income contributes significantly to overall net income and plays an important part in minimizing the cost of insurance. ICBC holds investment assets to offset future claims payments and to provide reserves to mitigate future volatility in insurance rates. Similar to other P&C insurers offering automobile insurance products, ICBC invests conservatively, with the majority of investments held in the form of fixed income instruments or bonds. The portfolio also includes investments in equities and real estate assets, which are held to enhance returns and provide added diversification.

Investment transactions are governed by a set of guidelines and procedures outlined in a Board approved Investment Policy. This policy addresses the company's risk tolerance and investment goals, and specifies a long-term investment asset mix consistent with these objectives. It also specifies market-linked benchmarks against which investment performance is evaluated. In addition to these internal governance provisions, under the new regulatory framework, ICBC is now governed by the "prudent person" standard as set out in the *Insurance Companies Act (Canada)*. This standard requires ICBC to make investments for its insurance business in a manner that "a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and to obtain a reasonable return," and is the same standard required of federally regulated insurance companies.

Key Business Partners

Insurance brokers distribute ICBC's insurance product and as such are a key business partner. ICBC and the brokers are guided in this partnership through both the AutoPlan Agency Agreement and the Strategic Broker Accord. The Broker Accord is a 5 year agreement that is to be renewed by December 31, 2007.

The collision repair industry provides auto repair services to ICBC customers. ICBC and the Automotive Retailers Association (ARA) and New Car Dealers Association share in a performance-based agreement negotiated in April 2005 for a three year period. ICBC and its industry partners are committed to a performance-based system that is fair to all parties, and is in the best interests of our mutual customers, while delivering safe, quality, guaranteed repairs.

The Minister of Public Safety and Solicitor General works closely with ICBC through a Memorandum of Understanding which provides for increased traffic enforcement activities to curb unsafe driving practices that lead to crashes. Additionally, ICBC enters into agreements with road authorities to share the costs of improvement to road design with the objective of decreasing the frequency and severity of crashes.

The Office of the Superintendent of Motor Vehicles works with ICBC to reduce the number and severity of driver error-based crashes in BC by ensuring qualified drivers are on the road. Also, Government Agents and Appointed Agents provide driver and vehicle licensing services to small communities on behalf of ICBC.

Governance

ICBC's governance is defined through legislation applicable to all Crown corporations and legislation specific to the company itself. ICBC's corporate governance is further defined by the Shareholder's Letter of Expectations between the Minister responsible for ICBC as a representative of the shareholder, the Government of British Columbia, and the Chair of ICBC's Board of Directors as a representative of ICBC. The Honourable John Les, Minister of Public Safety and Solicitor General, is the Minister responsible for ICBC.

ICBC's governance is also defined by an explicit organizational framework that sets out the roles and responsibilities of ICBC's Board of Directors and senior management.

Legislative Framework

As a Crown corporation, ICBC is subject to the *Budget Transparency & Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*. Under these provincial Acts, the company is accountable for making public its strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report). In addition, ICBC is required to provide financial and other information in accordance with the requirements of applicable legislation. In terms of providing Basic and Optional insurance and Non-insurance services on behalf of government, ICBC must adhere to a number of Acts, including:

- *Insurance (Motor Vehicle) Act*
- *Insurance Corporation Act*
- *Motor Vehicle Act*
- *Commercial Transport Act*
- *Motor Vehicle (All Terrain) Act*
- *Sales Tax Act (of BC)*

ICBC as a Regulated Crown Entity

In 2003, government passed the *Insurance Corporation Amendment Act*, which named the British Columbia Utilities Commission (BCUC) as the independent regulator for ICBC. In this role, the BCUC's mandate is to approve Basic insurance rates and ensure that ICBC's service levels for its Basic product are adequate, efficient, just, and reasonable. As ICBC is the sole provider of Basic insurance, this new regulatory environment is important for BC, providing customers with an independent and transparent review of the Corporation's Basic insurance operations.

In August 2005, ICBC submitted the Corporation's fifth filing for review, providing information on the following topics: the company's Basic Insurance Capital Management Plan; further information on the seven allocation functions identified by the Commission in its January 2005 Decision; the methodology for distinguishing between Road Safety and Loss Management; and internet as an alternative to the present distribution system. The process to review and assess this filing will conclude in 2006 with the BCUC decision.

ICBC will continue to meet its accountability requirements so that it contributes to an open and transparent regulatory process for the setting of Basic insurance rates and meet the expectations of its customers.

ICBC Board Governance

The Board of Directors guides the Corporation in fulfilling its mandate, and sets the direction for ICBC. The Board and management approve the corporate vision, mission, values, and goals to guide the Corporation. The Board sets goals for corporate performance and these goals and associated objectives are the basis upon which accountability and performance are evaluated. Performance against these goals and objectives is reviewed and periodically revised when necessary.

As a Crown corporation, ICBC's board members are appointed by the Lieutenant Governor-in-Council. The Board of Directors consists of nine members with a broad range of experience and expertise. The individual members each play an important role and also contribute as members of committees of the Board.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the Board Governance Manual, which is updated annually by the Governance Committee.

In 2003, ICBC's Board of Directors approved the Corporate Risk Framework, which defined a corporate approach towards the effective assessment and management of significant risks. The framework considers both external and internal environments, and the risks and challenges associated with each. The objective of this framework has been to identify risks, raise awareness of those risks throughout the company, and to initiate further action to control significant risks. The framework is actively used by ICBC executives to monitor strategic risks and planned mitigation strategies. Executive management and the Audit Committee of the Board review key corporate risks and status of related mitigation strategies quarterly, and an update is provided to the Board of Directors. Key risks and issues facing ICBC are discussed later in this Plan.

Operating Subsidiaries

Surrey City Centre Mall Ltd. (SCCM) is ICBC's only active operating subsidiary. It is governed by a four person Board of Directors, made up of SCCM's President, the President of ICBC and two members of ICBC's Board of Directors. SCCM's Board meets quarterly with its senior management. In addition, the company provides ICBC with monthly financial and performance information.

The figure on the next page illustrates ICBC's governance structure, lists the Board members and the Board's guiding principles.

Board Governance Structure

Board of Directors
Mandate: To foster the Corporation's short and long term success consistent with the Board's responsibilities to the people of British Columbia as represented by the Government of British Columbia.
Chair: T. Richard Turner
Members: Neil de Gelder, Alice Downing, Diane Fulton, Kenneth Martin, Susan Paish, Lisa Pankratz, Bob Quart, Terry Squire
Governance Committee
Purpose: To provide a focus on governance for ICBC and its subsidiaries that will enhance ICBC's performance.
Chair: Terry Squire
Members: Bob Quart, Neil de Gelder
Audit Committee
Purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing: (i) financial information; (ii) systems of internal controls and risk management; and (iii) all audit processes.
Chair: Bob Quart
Members: Lisa Pankratz, Terry Squire
Investment Committee
Purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.
Chair: Lisa Pankratz
Members: Diane Fulton, Kenneth Martin
Human Resources and Compensation Committee
Purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policies.
Chair: Susan Paish
Members: Alice Downing, Kenneth Martin
SCCM Board of Directors
Purpose: To manage the Surrey Central City Mall project in accordance with guidelines established by ICBC's Board of Directors.
Chair: T. Richard Turner
Members: Bob Quart, Paul Taylor, Paul Reilly

Board Governance Principles

The Board of Directors has adopted the guiding principles included in the provincial government's Governance Framework that provides an understanding of the roles and responsibilities for all parties that are part of the Crown corporation governance environment:

- Stewardship, Leadership and Effective Functioning of the Board
- Clarity of Roles and Responsibilities
- Openness, Trust and Transparency
- Service and Corporate Citizenship
- Accountability and Performance
- Value, Innovation and Continuous Improvement

Strategic Context

Industry and Competitive Context

Insurance is a complex business affected by external trends, factors, and risks. Understanding these trends and factors, and their implications for ICBC, is an integral part of planning. These external forces can present both significant opportunities and risks for the company, and hence heighten the importance of planning to capitalize on the opportunities and mitigate risks.

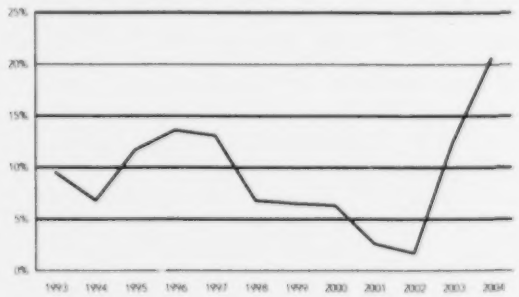
Profitability of Canadian Property and Casualty Insurance Industry

Canadian P&C has had a long term, average annual return on equity of 9-10% [3]. The market sustained below average returns between 1998 and 2002 with profitability returning to historical levels in 2003. This dramatic upswing coincided with premium growth from double digit rate increases [4] across most Canadian jurisdictions, solid returns in the investment market, stabilizing reinsurance rates, and decreasing claims costs.

For the past two years, the industry has produced a positive underwriting income which, prior to 2003, had not been realized since 1978 [5]. During this period, industry excess capital has grown from $2 billion to between $5-7 billion [6].

There are mixed signals as to whether 2005 will continue this trend. Quarter three results, obtained from the Office of the Superintendent of Financial Institutions (OSFI), indicate a 25% growth in industry net income as compared to the same period in 2004 [7]. However, the full impact of the catastrophic weather losses – such as the floods in Southern Alberta and, to a lesser extent, the devastation of Hurricanes Katrina and Rita in the U.S. – have not been fully realized. The Reinsurance Research Council predicts that reinsurance rates are expected to increase by 10-15% in North America in 2006 [8].

Canadian P&C Insurance Industry
(Average Return on Equity)



Automobile Insurance

According to 2004 data, automobile lines constitute approximately 51% of direct premiums written for the Canadian P&C [9] insurance business. Following the dramatic rate increases in 2003, regulatory reform and the overall downward trend in claims frequency have led to a gradual decrease in rates across jurisdictions. According to information from the Insurance Bureau of Canada (IBC), the Ontario market, which accounts for half of all auto direct premiums written in Canada, has seen a 15% decline in auto insurance rates since November 2003 [10]. Statistics Canada's Consumer Price Index for the 12 months ended November 30, 2005, also shows a decrease of 1.2% across Canada [11].

[3] TD Newcrest Report on Canadian P&C, April 22, 2005
[4] Thompson's Daily Insurance News Service May 28, 2003 "Ontario FA - Now competitively priced for many risks, becomes 1st choice for some"
[5] S&P Industry Report Card, Canadian P&C 2005
[6] MSA/Baron 2005 Q2 Report
[7] Office of Superintendent of Financial Institutions 2005
[8] Thompson's Daily Insurance News Service October 3, 2005, "Instead of softening, reinsurance rates likely to go the other way..."
[9] Canadian Insurance 2005 Annual Statistical Issue (Line Record of Premiums and Claims in CAN) DPW for Auto Lines = $17.1B, Total DPW for Can. P&C = $33.7B
[10] Canadian Underwriter July Issue, "Ontario Auto Premiums Show Decrease"
[11] Statistics Canada, The Consumer Price Index, Sept 2005, Catalogue no. 62-001-XB

The Facility Association, which underwrites the residual market in most jurisdictions, has also seen a marked improvement in its combined ratio (overall profitability) coupled with a drop in average market share [12]. The residual market (also known as the "shared market") consists of those consumers who are unable to purchase automobile insurance through the voluntary market due to a variety of factors, such as their driving history or status as first-time drivers [13]. Efforts by insurers and brokers, and a market return to profitability, have resulted in Ontario seeing a drop in percentage of customers in the residual market from 3.5% in 2003 to 0.6% in June 2005 [14].

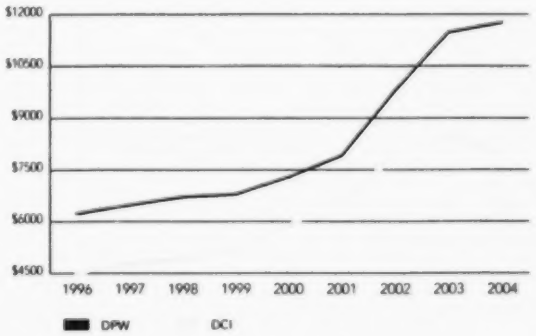
Although market indicators for the Canadian Auto insurance industry are positive, the industry is still troubled by increasing bodily injury claims [15]. Ontario, which represents about half of all auto premiums written in Canada [16], has seen a sharp increase in litigated bodily injury claims and overall bodily injury costs according to the IBC [17]. Recent rate filings in Alberta also show an overall projected increase in bodily injury severities. The Mercer Oliver Wyman study commissioned by the Alberta Automobile Rate Board derived an estimate of 5.8% annual growth in severity [18].

Regulatory Trends

In the past 24 months, many regulatory changes have been introduced across Canada with the goal of ensuring the availability and affordability of insurance over the long run. Caps on pain and suffering were introduced in 4 provinces [19], rate freezes or roll backs have been phased in, and changes to rating criteria such as the removal of gender, marital status or credit history have been legislated in some provinces. Since the introduction of these reforms rates appear to have stabilized – at least, in the short term.

On the insurer-intermediary front, a number of reviews across Canada on business practices between insurers and intermediaries (broker and agents) have resulted from the ripple effects of the New York Attorney General's inquiry into the U.S. insurance industry [20]. These reviews have looked at financial ties, ownership relationships, contingent commissions, and other incentives. Although the reviews have enhanced voluntary disclosure, there is continued industry contention as to whether further action is required. In early 2006, it is expected that the Federal Finance Minister will review financial legislation, including sections of the Bank Act pertaining to the ability of banks to directly retail insurance [21].

Auto Total DPW and Direct Claims Incurred



Source: Office of Superintendent of Financial Institutions

[12] Thompson's Daily Insurance News Service April 13, 2005, "Dramatic depopulation improvements except in Atlantic region"
[13] HYPERLINK "http://www.aipso.com/faq_residual.asp" www.aipso.com/faq_residual.asp, "Residual Market Overview", Nov 2005
[14] The Facility Association, http://www.facilityassociation.com/provprofilesOntario.asp
[15] Thompson's Daily Insurance News Service September 16, 2005, "Ontario legal community gone wild as auto bodily injury claims increase sharply: IBC"
[16] MSA data for 2004 shows that auto DPW in Ont are 48.7% of total auto DPW in Canada
[17] Thompson's Daily Insurance News Service September 16, 2005, "Ontario legal community gone wild as auto bodily injury claims increase sharply: IBC"
[18] Auto Insurance Rate Board Review of Mandatory Premiums – June 27, 2005 Day 1 of 4 Hearings Transcript
[19] MSA / Baron Outlook Report Q1 2005
[20] Namely – Reviews by the Autorité des marchés financiers, Canadian Council of Insurance Regulators Report, Registered Insurance Brokers of Ontario Report
[21] Thompson's Daily Insurance News Service, September 29, 2005, "Big bank mergers off federal table, but not bank branches retailing insurance"

Key Strategic Issues/Risks

Looking ahead to 2006 – 2008, ICBC has identified a number of issues and risks that could impact ICBC's future performance.

BCUC Regulatory Process

BCUC provides regulatory oversight of Basic insurance rates and service and ensures that costs are appropriately allocated between ICBC's Basic and Optional insurance businesses. ICBC supports this process as part of an open and transparent regulatory process for the setting of Basic insurance rates.

2004 and 2005 entailed a full regulatory agenda. During this time, the Commission established revenue requirements for each year, the approach to financial allocation, and is currently reviewing the proposed capital plan for Basic insurance. The focus over the next several years will be to build sustainable capacity and refine internal processes to effectively and efficiently meet these regulatory responsibilities.

Need for Reinvestment & Evolution of Service Delivery

Over the past several years, fiscal strength and stability has been a key focus for the Corporation. This has been achieved as evidenced by the strong financial results and the current levels of capital held over the past few years.

In order to maintain operational excellence, it is necessary to look beyond short term fiscal performance and to examine investment for the future success of the business. Similar to other businesses, ICBC faces an aging workforce requiring reinvestment in people and training. ICBC must also continue to evolve its service delivery with a focus on the changing needs of customers and leveraging technology to deliver services better and more efficiently.

Today, ICBC provides customers a high level of value through integrated points of service, a result of the economies of scale that come from an effective integration of ICBC's various business services. Moving forward, ICBC will continue to build on this foundation with focus on helping its people and partners provide even better levels of service and value for customers.

Competition in the Optional Insurance Market

As indicated earlier, the Canadian P&C insurance industry has been experiencing record profits resulting from robust market conditions. This may spur more competition as insurers seek to invest excess capital and expand market share.

Legislation passed in 2003 has also set the stage for competition by creating a common regulatory framework for both private insurers and ICBC in the Optional insurance market. The requirement for ICBC's Optional business to hold industry levels of capital has been achieved.

Integrating the proposed legislative framework into ICBC's business will involve modifications to ICBC processes and systems.

Investment Market

Like all insurers, ICBC holds investment assets to pay for future claims costs and provide reserves to mitigate against future volatility in insurance rates. In holding such assets, investment income is earned and contributes to the company's overall net income helping to keep rates low and stable. This income is affected by the overall condition of the general investment market.

The investment market outlook for 2006 calls for a strong Canadian dollar and higher interest rates as the Bank of Canada is expected to continue its tightening cycle. With more than half of ICBC's portfolio invested in fixed income assets, interest rate volatility is a risk. Stock market returns are expected to be modest, in the single digit range.

Automobile Crashes and Crime

Automobile related crashes and crime present a significant social and economic cost to all British Columbians. As vehicle population grows and the urban density of many BC communities increases, the risk of automobile crashes rises. Vehicle population is projected to grow by 2.3% in 2006. However, fuel prices have also increased dramatically over the past 24 months. U.S. statistics show that retail gasoline prices have increased by approximately 70% between October 2003 and 2005 [22]. It is still too early to determine the measurable impacts of rising fuel costs to driving behavior and exposure to crashes in BC.

Information to date shows that compared to 2004, BC crash rates per 10,000 active vehicles have improved slightly in 2005. Preliminary projections indicate a 2005 annual crash rate within 1% of the 2004 rate. This steady trend also applies to the subset of more serious crashes reflected in the injured participant rate. Both crash rates and injured participant rates are in line with historical levels of the past two years.

Although frequency trends are stabilizing, ICBC analysis shows that the average cost of settling a claim (severity) has increased. The increase in severities for bodily injury claims is significant and ICBC is monitoring the trend. Increases in material damage severity can be attributed to higher vehicle repair costs and a newer fleet of vehicles being insured.

Auto crime is a problem that impacts insurance costs for all British Columbians. It continues to be an area of focus for ICBC even though annual trends now see rates declining, from 560 incidents per 10,000 actively licensed vehicles in 2002, to 373 in 2005.

Long Term Financial Strength of ICBC

As a result of the past several years of positive financial results, ICBC has, overall, made significant progress to achieving required capital targets and is working towards achieving the Basic insurance targets as defined within the amended Special Direction IC2.

Forecasted financial results for 2005 indicate higher claims costs, particularly in Basic insurance bodily injury and accident benefit claims. The increase in claims costs affects corporate financial performance as well as the requirement for future rate increases to cover the increasing costs.

Looking ahead, ICBC will continue to manage the major risks inherent within the insurance business described earlier, and focus on achieving required capital levels. Premiums have remained relatively flat while claims costs continue to rise and controllable costs remain constant. Approval to increase revenues for the Basic business is subject to the scrutiny of the BCUC in a public and resource intensive regulatory process. The Optional business may be required to prepare for proposed legislative changes. ICBC will need to make prudent business decisions in this environment and prepare itself to compete, while keeping customer needs at the forefront.

Other Risks

ICBC's risk management framework has identified additional potential corporate level risks that are being actively monitored and mitigated. The framework considers both external and internal environments and risks and challenges associated with each. Among other factors, capacity and resources are an essential consideration in the development of mitigating strategies. Key risks and their mitigation strategies are listed in the tables on the following pages.

[22] US Department of Energy, Retail Gas Prices (http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html)

Business Risks and Risk Management

Claims Costs

Description of Sensitivities / Risks:

- Increased fraud, severity, frequency and/or litigation of claims results in higher costs. Claims costs account for approximately 75% of ICBC's total expenditures. A 1% fluctuation in claims incurred represents a $25-$28 million change in net income, and a 1% fluctuation in the unpaid claims balance represents an approximately $47-$50 million change in claims costs.

Mitigation Strategies:

- ICBC uses a number of strategies to minimize the impact of rising claims costs including road safety and loss management activities aimed at reducing crashes, preventing injuries and reducing auto crime. Ongoing monitoring of claims trends and implementation of cost control initiatives are also undertaken. ICBC also works closely with its many partners in industry to address these cost pressures on an ongoing basis.

Access to Personal Information

Description of Sensitivities / Risks:

- As part of both insurance and Non-insurance businesses, ICBC maintains a significant amount of personal information regarding its customers, and deals with business partners and customers over the internet. Access to this information must be carefully managed and measures must be in place to guard against unauthorized access to this data.

Mitigation Strategies:

- ICBC has data security measures in place, as well as a Code of Ethics policy governing the access and appropriate use of corporate data. During 2004, the Corporation undertook the development of an Enterprise IT Security Strategy that will further enhance systems and procedures that protect ICBC's electronic information assets.

Financial Markets

Description of Sensitivities / Risks:

- ICBC manages an investment fund of approximately $7.2 billion in order to partially offset future claims costs. A 1% fluctuation in return means a $72 million change in investment income.

Mitigation Strategies:

- ICBC's investment policy addresses the Corporation's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. The policy, which is established by the Investment Committee and approved by the Board of Directors, is based on prudence and regulatory requirements, and provides guidelines for balancing the level of risk and return in ICBC's investment portfolio.
- ICBC follows a long term strategy and diversifies its investment holdings to manage income fluctuations.

Business Interruption

Description of Sensitivities / Risks:

- Business interruption arising from labour disputes, technology issues or natural disaster can potentially disrupt service levels for insurance, driver, and claims services.

Mitigation Strategies:

- A business continuity plan has been developed to enable the Corporation to provide critical services in the event of such an occurrence. During 2004, the formal transition of the plan to a Business Continuity Management program was implemented to further integrate the plan within the business areas. In addition, back-up copies of data are moved to off-site storage, and regular testing of critical system recovery through a remote site is completed.

Catastrophic Loss

Description of Sensitivities / Risks:	Mitigation Strategies:
• Protection against catastrophic loss from an earthquake or other major event is a concern.	• In the event of losses resulting from catastrophes, such as an earthquake, ICBC has financial protection through a reinsurance policy that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. • In addition to protection against individual catastrophic events, the reinsurance agreement protects the Corporation against abnormally large losses by limiting the amount for which the Corporation is liable in any single year.

Succession Planning

Description of Sensitivities / Risks:	Mitigation Strategies:
• Retention of corporate talent and planning for replacement of key positions are essential in meeting current and future business needs. Lack of succession planning can result in the loss of skills and knowledge that enable the achievement of corporate goals and objectives.	• Succession plans are being developed for key positions to ensure current and future business needs are being considered today. As part of its approach, the company is using tools like High Potential Pools and development plans.

Customer Support

Description of Sensitivities / Risks:	Mitigation Strategies:
• ICBC's focus on customers is a key goal of the corporate strategy. Changes in service delivery, product pricing or design, or other ICBC programs can impact customer satisfaction.	• ICBC monitors customer service performance by measuring the percentage of satisfied customers for each major transaction type — insurance services, driver services, and claims services. • ICBC communicates with the public and stakeholder groups to raise awareness and inform the public of ICBC's products and the unique value received. • ICBC has implemented policies and procedures to support our commitment to fairness in all its dealings with customers, including a new initiative called FairClaim to provide customers with additional information about decision making and financial impacts in the claims process.

Reputation

Description of Sensitivities / Risks:	Mitigation Strategies:
• On behalf of the provincial government, ICBC is the sole provider of driver licenses in British Columbia. If a license is fraudulently obtained it could result in public safety or identity fraud issues.	• A strategy to address licensing fraud was created in 2004 and implementation commenced in 2005.

Corporate Strategy

Vision

ICBC will be the leading insurance company in all aspects of its business, operating competitively and valued by its customers.

Mission

We will be the insurer of choice delivering insurance products, licensing services, road safety, and other loss management initiatives that are superior, innovative and valued by our customers, at the lowest cost possible. Our reputation will be as a dependable, fair, equitable, and competitive service provider. We will accomplish this with our dedicated employees working in a performance-based culture achieving operational excellence with the assistance of our independent broker force and other business partners.

Values

Integrity

We value people by treating others with respect and dignity. We are honest by representing our intentions and ourselves truthfully. We will be accountable for our performance and ensure decisions made are supportable.

Commitment

We demonstrate commitment as employees by doing our best work at all times. ICBC leadership demonstrates commitment to employees by creating a work environment that supports employees in making their best contribution for the benefit of the customer. We are committed to operating in a cost-effective manner and will continue to seek ways to improve efficiency.

Dedication to the Customer

We measure our success by our customers' belief that ICBC products and services provide good value for their money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience.

Strategic Goals, Objectives, Strategies and Performance Measures

ICBC's strategy is to be a leading insurance company in BC, providing low and stable rates to BC's drivers over the long term. ICBC has been successful in delivering on this strategy as evidenced by the strength of the company's capital levels, the ability to maintain low and stable rates (relative to other jurisdictions), and the decrease in rates offered to better risk Optional customers.

How will ICBC continue to achieve success? By ensuring the company meets customer needs through its dedicated employees and business partners, delivering competitively priced products and services, and managing the company's finances responsibly.

In moving forward, ICBC will continue to focus on its vision to be a leader in all aspects of its business – from insurance to road safety to licensing – to operate competitively, and to provide customers value through its products and services. The concept of being a better business applies equally to all aspects of its business.

ICBC's strategy is articulated through its four corporate goals:

- Become More Competitive
- Customer Focused
- Revenue Driven & Fiscally Responsible
- Personally Accountable, Capable & Engaged People

This section provides information on each goal, high level objectives, strategies that will guide ICBC's efforts, and the measures that will drive results.

The four goals are the foundation of ICBC's performance environment. Having clear strategic direction helps the company set priorities, making certain efforts across the company are aligned and focused on the same result.

The measures selected to assess ICBC's performance are both financial and non-financial. Where possible, the company uses standard industry measures that enable benchmarking with other insurers. In other cases, because ICBC's business model is relatively unique among P&C insurers, ICBC develops distinctive measures relevant to the area of effort.

Planning at ICBC is a continuous activity. Throughout the year, the Board and management systematically review corporate direction against strategic issues facing the company as part of ongoing risk management processes and adjust priorities accordingly.

Become More Competitive

The goal of becoming more competitive is about being a better business overall and providing low and stable rates to customers.

Being a better business applies equally to ICBC's Basic and Optional business. As the sole provider of Basic insurance, ICBC works to ensure that its services meet the needs of the driving public and are comparable to those delivered through the general P&C industry and other service industries. The focus is to also provide customers value and price the product appropriately to ensure low and stable rates.

In providing Optional insurance ICBC's approach is no different, except that it competes with private insurers.

Like all insurance companies, ICBC must comply with legislative requirements set out for P&C insurers. If legislation is proclaimed, all insurance companies operating in BC will be required to sell Optional insurance through an Optional policy contract. The Optional policy contract will help consumers understand the variety of contract terms available to them and support a more competitive environment for Optional products.

Consistent with industry practice, for ICBC to provide low and stable rates to its customers, it is appropriate for the company to hold specific levels of capital for Basic and Optional insurance. Achieving adequate capital levels protects customers from unexpected spikes in claims costs or a significant reduction in investment income.

Moving forward, ICBC will continue to compete by providing the best value for its customers across the province in all aspects of its business. ICBC will also retain its focus on performance and results – benchmarking, where possible, to best practices and working closely with its business partners to be a leading insurer well into the future.

Objectives

- Deliver innovative, competitive, and tailored optional products and services.
- Achieve planned financial results.

Strategies

- Maintain the stability of the Basic insurance product and manage Optional products to ensure they remain competitive.
- Improve analytical capabilities to support the regulatory process.
- Manage the legislative and regulatory change effectively.

Performance Measures

Return on Equity

This is an industry standard financial measure that indicates the change in value to a shareholder for investing in an organization. This measure is the ratio of net income to average retained earnings and is calculated on an annual basis.

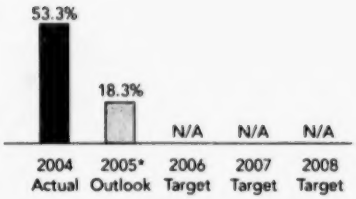
ICBC's 2005 outlook of -3.2%, excluding the positive accounting adjustment from the margin release, is significantly lower than the previous forecast of 26.7%. The decreased return on equity is primarily due to the deterioration in injury claims offset by better than anticipated vehicle growth, investment income, and a non-recurring accounting adjustment of approximately $227 million. This accounting adjustment results from direction received from BCUC regarding regulatory reporting.

Return on Equity measures the Corporation's profitability as a percentage of retained earnings. As the Corporation does not have the business objective of maximizing profits or return on equity in its Basic insurance operations, which accounts for approximately 60% of ICBC's business, this is not the optimal competitive measure for the organization. Moving forward, ICBC will use the Minimum Capital Test (MCT) to measure financial performance and will no longer include Return on Equity as a public corporate performance measure.

Minimum Capital Test (MCT)

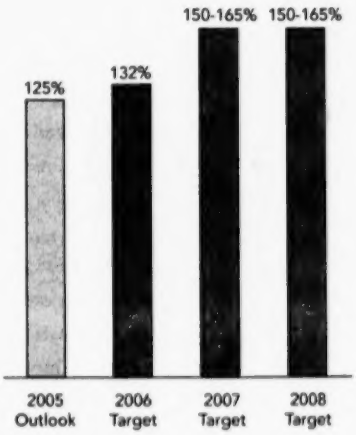
MCT is an industry measure used to determine whether a company has sufficient capital levels. Based on this forecast, ICBC's 2006 target will be 132%. Over the next few years, ICBC will move towards operating at a capital level range of between 150% - 165%.

Return on Equity



*The 2005 Outlook includes the impact of the margin release on unpaid claims. The Return on Equity would be -3.2% if this was excluded or 21.5% lower.
Source: ICBC Financial Systems

Minimum Capital Test (MCT)



Source: ICBC Financial Systems

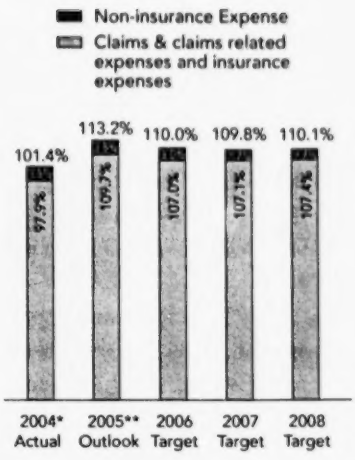
Combined Ratio

The combined ratio is a key measure of overall profitability within the insurance industry. This measure is calculated as the ratio of costs (claims costs, claims related costs, administrative costs, acquisition costs and Non-insurance costs) to insurance premium dollars earned. A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss.

The 2005 outlook for the combined ratio is 113.2% and is higher than 2004 and previous forecast. This is mainly attributable to the deterioration in injury claims. The targets for 2006 - 2008 are lower than the 2005 outlook and reflect the expected claims costs determined from recent claims trends.

When considering these figures, it is important to recognize that as part of the Basic insurance business, ICBC's operating costs include approximately 3.0% in Non-insurance costs which are costs not incurred by private insurers. Further, the Basic insurance business is mandated to provide Basic insurance to all drivers in BC, including high risk drivers.

Combined Ratio



* On an undiscounted basis.
** The 2005 Outlook includes the impact of the margin release on unpaid claims. The combined ratio would be 120.5% if this was excluded or 7.3% higher.
Source: ICBC Financial Systems

Investment Return

ICBC's investment portfolio is anticipated to have an approximate market value of $7.6 billion at December 31, 2005. The portfolio, which is conservatively invested with the majority of assets held in investment grade bonds, is held to cover future claims payments and to provide reserves to mitigate the future volatility in insurance rates. Investment returns which incorporate both change in market value of assets and income generated are closely monitored. Individual asset class returns are measured relative to the performance of standard industry benchmarks.

As well, the return of the overall portfolio is measured against a policy benchmark calculated as the average of individual asset class benchmark returns weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policy and Procedures which is set by the ICBC Board of Directors.

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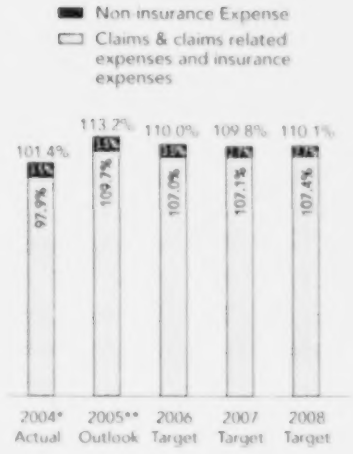
Combined Ratio



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ICBC's investment portfolio has historically performed well, exceeding four year annualized benchmark return and value added objectives in 2004. The portfolio's four year annualized return in 2004 was 6.07% versus a four year annualized benchmark return of 5.61% yielding an average excess return of 0.46% over the four year period. Canadian fixed income and equity portfolios have consistently been sources of this added value.

In 2005, the ICBC investment portfolio is expected to outperform its policy benchmark and added value objectives as equity portfolios continue to add value relative to performance benchmarks.

The 2006 - 2008 investment portfolio performance targets are to outperform the policy benchmark as described in the ICBC Statement of Investment Policy and Procedures, by 0.268%. For performance measurement purposes, ICBC does not forecast the benchmark return, as it is the result of market forces beyond the company's control. In managing the portfolio, ICBC remains vulnerable to rising interest rates, deterioration in equity markets, and currency fluctuations. These risks, which are not unique to ICBC, are proactively managed.

An external performance measurement service independently calculates returns at the portfolio, asset class and investment manager levels. The measurement service then benchmarks ICBC returns against market indices and against a universe of managers running similar investment mandates. Third party calculations are verified by ICBC investment staff.

Revenue Driven and Fiscally Responsible

ICBC has experienced strong financial results in each of the past five years. The Corporation's commitment to a policy of fiscal control has served the company well in meeting its financial targets.

ICBC's financial success positions the company to provide low and stable rates to its policyholders. The key drivers of this success have been the reduction of costs through operational efficiencies, performance-based agreements with key suppliers, and management of claims costs.

ICBC invests in various initiatives to keep claims costs under control. For example, performance-based compensation models with suppliers (e.g., the collision repair industry) and increased efficiencies in the service delivery model.

Also, ICBC's investment in loss prevention and road safety programs and initiatives reduce crashes and crime. Further, ICBC partners with the Ministry of Public Safety and Solicitor General, Ministry of Transportation (MOT), and municipalities to provide: enhanced traffic law enforcement on BC roads, the Graduated Licensing Program to better prepare young drivers for the complex task of driving, and road improvements such as intersection safety, more visible signs and left turn bays. All programs have the objective of improving safety and reducing risk on BC roads as well as controlling claims costs.

Moving forward, the company will continue to ensure discretionary costs are managed in a cost-effective manner. However, ICBC's market has grown and is forecast to continue to grow. As a result, ICBC is at a point where it needs to reinvest in the business, particularly in the areas of technology infrastructure, facilities, and investments in personnel.

Objectives

- Excel in operational effectiveness and efficiency in all insurance products and services, licensing, road safety and loss management, and other activities conducted by the company.
- Minimize claims costs, severities, and frequencies through product design, claims cost controls and loss management.
- Improve the value of goods and services purchased and increase the recovery of costs for services provided.

Strategies

- Deliver programs to manage frequency and cost of claims such as road safety, fraud reduction initiatives, and other initiatives to tightly manage bodily injury and material damage claims.
- Focus on relationships with key suppliers to ensure customers receive the most value from their premium dollars.
- Upgrade and maintain existing systems and applications.

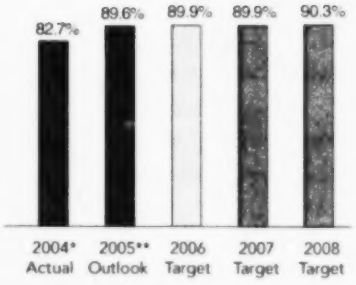
Performance Measures

Loss Ratio

This is a key performance indicator within the insurance industry, measuring profitability of the insurance product: the lower the percentage, the more profitable the product. This measure is calculated as the ratio of the total of claims and claims related costs, including loss management and road safety costs, to insurance premium dollars earned.

The 2005 loss ratio outlook is 89.6%, which is higher than previous forecasts. The outlook reflects the deterioration in injury claims costs and the positive accounting adjustment to remove the margin on unpaid claims. The 2006 - 2008 forecast is based on the 2005 outlook.

Loss Ratio



* On an undiscounted basis.
** The 2005 Outlook includes the impact of the margin release on unpaid claims. The loss ratio would be 96.9% if this was excluded or 7.3% higher.
Source: ICBC Financial Systems

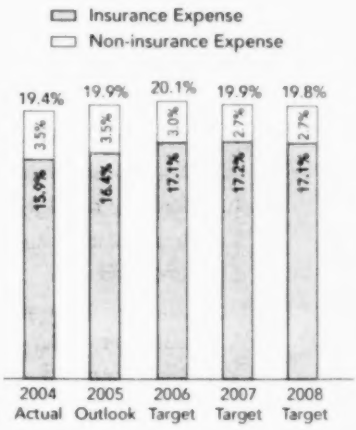
Expense Ratio

The expense ratio is a standard industry measure for assessing a firm's operational efficiency. This measure is calculated as the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid on premiums written, product design (underwriting) and Non-insurance costs such as those associated with driver licensing and vehicle registration. To enable comparisons with industry benchmarks, the expense ratio excludes the impact of one-time non-recurring items.

This ratio consists of two key components: the insurance expense ratio and the Non-insurance expense ratio. Segregating expenses in this manner allows ICBC to better manage the costs of operating its insurance business, and more accurately reflects the distinct nature of ICBC's operating model relative to other automobile insurers.

Overall, the expense ratios are higher than previously reported. This is due to the reclassification of service fees to other revenues. Service fees were previously reported as reductions to operating costs.

Expense Ratio



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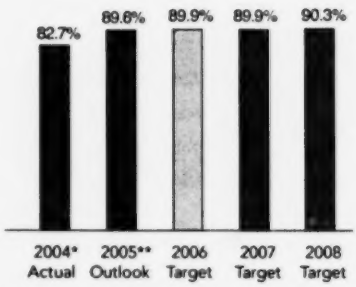

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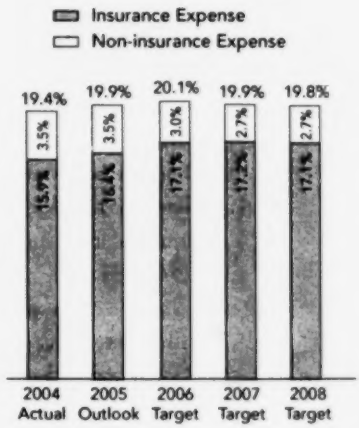
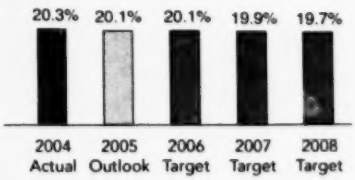


ICBC incurs Non-insurance expenses in providing driver licensing, commercial vehicle compliance services, vehicle registration and licensing, and fine collection to British Columbians. The Non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's Non-insurance business to insurance premium dollars earned. ICBC scrutinizes these costs closely to ensure it remains an efficient provider of these services on behalf of government. The 2006 – 2008 targets are slightly lower than historical results. The reduction in the targets reflects the March 31, 2006 expiration of ICBC's $24.7 million annual payment to government for the commercial vehicle compliance functions.

Claims Efficiency Ratio

Managing claims represents a significant component of ICBC's workforce and operating costs. This is a measure of ICBC's claims handling efficiency, and is calculated as the ratio of claims handling costs (including allocated expenses) over claims paid less the allocated expenses. Allocated expenses consist primarily of outside legal counsel fees and disbursements, medical reports, private investigators, independent adjusters, and towing costs. In general, a year-over-year reduction in this measure indicates an overall increase in operating efficiency.

Claims Efficiency Ratio



The claims efficiency ratio is an extension of the loss ratio and should be viewed in conjunction with that result. For example, if ICBC were to defend a claim by going to trial, its legal costs would increase and if ICBC was successful, the amount paid out in claims could decrease. Both of these impacts could make the claim efficiency ratio worsen, but the offsetting impact would be a better loss ratio.

The targets for 2006 – 2008 project stability and are consistent with the targets previously reported. The frequency of claims, and the operating costs to manage those claims, is forecast to increase at a slower rate than the increase in claims costs. However, claims cost pressures remain, such as a newer overall fleet of vehicles that cost more to repair and increasing injury expenses. These cost pressures reinforce the need for ICBC to remain vigilant in identifying and implementing initiatives that manage claims servicing costs.

Customer Focused

ICBC's team is passionate about providing value to customers through their ongoing efforts to be a better business.

For ICBC's customers this means a commitment to continuous improvement, competitive prices, and customer convenience in accessing ICBC services. More importantly, it means customers can expect to be treated fairly and with respect.

Being customer focused means understanding different customers' needs and expectations. Ultimately, ICBC needs to deliver value to British Columbians through both its Basic and Optional products and driver services.

In 2005, ICBC expanded its points of service for driver services. Additionally, the company began work to improve integration between product development and service delivery to enhance operational capabilities and provide better products and services to customers. The company also initiated upgrades to the technology in its call centres to better and more cost-effectively serve customers.

In 2006, ICBC will continue to evolve its service delivery by examining enhancements to service levels and working with key business partners (such as brokers and repair shops) to identify ways to deliver greater value to customers.

Objectives

- Increase customer approval of ICBC as a result of informed opinions and a better understanding of the value and operations of the company.

Strategies

- Achieve competitive levels of customer service and satisfaction.
- Strengthen service channels to improve customer satisfaction, enhance efficiencies, and strengthen ICBC's overall competitiveness.
- Enhance the broker relationship to support excellent customer experience.
- Enhance service offerings to customers.

Performance Measures

Measuring customer service performance at ICBC is based on the percentage of satisfied customers. A separate measure is used for each major transaction type — insurance product purchase, driver service and licensing, and claims. The design of ICBC's measures and targets reflects the inherent differences of these key transactions.

An independent research firm is retained to conduct ongoing surveys of customers for the purposes of monitoring satisfaction.

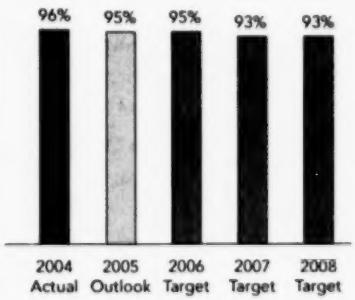
ICBC's Board of Directors approved changes to the company's public corporate performance measures. The Customer Approval Index (CAI) was discontinued as part of the Service Plan. Research conducted over the past two years has shown that the CAI is sensitive to elements within and outside of ICBC's control. Although the CAI is a useful indicator of the public's perception of performance the CAI will no longer be reported in the Service Plan. ICBC will, however, continue to use the survey results to better understand and develop plans to manage the public's perception.

Insurance Services Satisfaction

Independent insurance brokers process approximately 3 million policies each year. This measure represents the percentage of customers satisfied with a recent ICBC insurance transaction and is based on quarterly surveys of over 1,000 customers. The measure is typically over 90% and indicates the positive relationship ICBC and its brokers enjoy with customers.

The 2005 outlook and 2006 targets are in-line with the forecast previously reported. The 2007 and 2008 targets are expected to decrease as a result of the proposed legislative changes requiring a separate Optional policy contract. The separate contract will be a change for ICBC and its customers, and an important step in increasing consumer awareness of both the product and the availability of choice. It may, however, increase the time it takes to complete an insurance transaction, at least initially.

Insurance Services Satisfaction



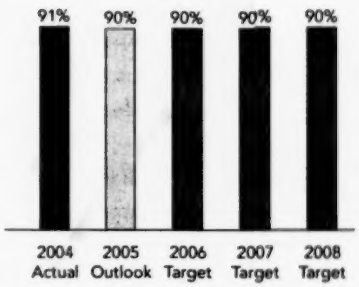
With "time" one of eight factors used in rating customer satisfaction, an increase in transaction time may adversely impact satisfaction scores in the short term. Once the timing of this change is confirmed, ICBC will carefully manage implementation in partnership with brokers to ensure customers get the right information at the right time in ways that ensure a continued positive experience.

Driver Services Satisfaction

Each year, ICBC conducts over 1.2 million transactions relating to the issuance of driver licenses and driver exams. This measure represents the percentage of customers satisfied with their driver licensing transaction with ICBC, which includes renewing a license, taking a knowledge test, or undergoing a road test. The measure is weighted by the number of transactions for each type of service, and is drawn from a sample of approximately 4,000 customers surveyed throughout the calendar year.

The 2005 outlook is in-line with the targets previously reported. The 2006-2008 targets are consistent with the 2005 outlook.

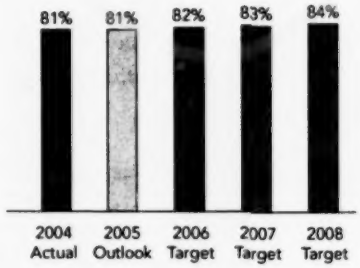
Driver Services Satisfaction



Claims Services Satisfaction

Almost one million claims are processed each year through over 40 ICBC claims handling facilities around the province. This measure represents the percentage of customers satisfied with a recent ICBC claims transaction and is based on a representative sample of claims customers. In 2003, changes were made in the sample selection and calculation of the measure, enabling ICBC to benchmark its performance to P&C companies in Ontario. However, the benchmark score in Ontario in 2004 is not available as the Financial Services Commission of Ontario (FSCO) discontinued its requirement that Auto Insurers conduct the claimant satisfaction survey [23].

Claims Services Satisfaction



[23] Financial Services Commission of Ontario (FSCO) discontinued measurement of the customer satisfaction score effective mid 2005. 2003 was the last year FSCO published survey results.

The 2005 outlook is consistent with 2004 results, but is not expected to achieve the stretch target of 84% reported previously. This is partly attributed to product changes that have altered the sample of customers surveyed for this measure, transitional issues related to changes in business procedures or technology, and media coverage believed to have a direct impact on satisfaction. The 2006-2008 targets are based on a steady approach by ICBC to positively increase the claims satisfaction score.

In moving forward, ICBC will implement measures to address the main areas of customer concern in the claims process. For example, initiatives underway include piloting extended hours of service, skills-based routing tools to improve the claims settlement process and providing customers with more options for vehicle repairs through the Express Repair Program.

As mentioned previously, ICBC has been using the FSCO claimant satisfaction survey methodology as a benchmark since 2003. In 2005 FSCO discontinued its survey process. As a result, ICBC will be reviewing its customer survey methodology in 2006.

Personally Accountable, Capable and Engaged People

An engaged and capable workforce is a key strategy for ICBC. The company is clear in its objective: provide employees with a working environment that fosters engagement and ensure people have the right tools and training to do their jobs.

ICBC's people provide value to ICBC customers. Our employees believe in the company and are committed to ensuring customer needs are serviced in a fair and equitable manner.

Positioning the company to succeed in all aspects of its business hinges on the right investments in people. Through its people, ICBC will continue to provide value to customers, achieve financial success, and differentiate itself from its competitors.

In 2005, the company advanced its people strategies by making progress in the areas of training and development, succession planning, and coaching programs. In addition, ICBC worked to improve its communication with its employees.

ICBC faces the challenge, like many companies, of an aging workforce. To prepare for this, ICBC needs to reinvest in its people to ensure the company is prepared for the eventual change in the workforce.

In 2006, ICBC will continue to implement elements of the people strategy, specifically those identified as key drivers of levels of employee engagement: recognition and involvement; leadership development; and, performance management. ICBC will also work towards ensuring succession and resource planning efforts are targeted at getting the right people in the right jobs at the right time.

Objectives

- Increase the level of engagement of ICBC's employees.
- Ensure that ICBC has a workforce that is capable of meeting the current and future requirements of the business.

Strategies

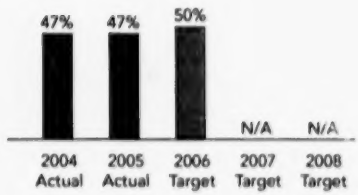
- Identify and improve key workplace people practices that strongly influence workforce engagement.
- Build leadership and management talent.
- Plan for future workforce needs and implement strategies to address gaps (e.g., succession and workforce planning).

Performance Measures

Employee Engagement Index

This measure assesses the overall level of engagement of ICBC's employees [24]. Engagement is evaluated under the rubric of "Say" (how positively people speak about the organization), "Stay" (people's desire to be a part of the firm), and "Strive" (people's willingness to commit extra effort). Improving engagement is a long-term goal, and one ICBC sees as an integral part of its core business strategy.

Employee Engagement Index



In June 2004, ICBC conducted its first survey of all employees to establish a baseline result. The survey found that 47% of ICBC's employees felt engaged along the "Say, Stay, and Strive" dimensions, and identified areas where ICBC could make meaningful change (e.g., senior leadership and performance management).

In October 2005, employees completed the second survey with the result again at 47%. This figure is lower than the 2005 target, and confirms that more must, and will, be done. At the same time, the survey pointed to some initial positive results. Most notably, employees felt that progress had been made on a number of areas targeted for improvement by the 2004 survey.

The 2006 target has been set at 50%. Moving forward, ICBC will continue to build on the momentum generated by initiatives in 2005. Specifically, key areas where continued improvement is required include ICBC's people practices (e.g., performance management), senior leadership, and the resources available to do one's job.

Targets for 2007-2008 have not been established. At this early stage of the measure's development, it is difficult to meaningfully project targets beyond one year. More importantly, it needs to be stressed that the work to improve engagement is a long-term strategy, one that builds over time as the company invests energy and resources to change behaviors and people practices.

[24] ICBC engagement index is designed by a leading global human resource firm, and is employed by hundreds of other firms in Canada and around the world.

Strategy Summary

ICBC's current goals, objectives, and targets, and an historical perspective on ICBC's high level strategies are contained in the following tables. In addition, information is provided concerning ICBC's performance management systems.

Goal	Objectives — High Level	Measures	Outlook	Target		
			2005	2006	2007	2008
Become More Competitive	• Deliver innovative, competitive and tailored optional products and services. • Achieve planned financial results.	Return on Equity (annual basis)	18.3%	N/A	N/A	N/A
		Minimum Capital Test (MCT)	125%	132%	150-165%	150-165%
		Combined Ratio				
		• Claims & Claims Related Expenses & Insurance Expense	109.7%[A]	107.0%	107.1%	107.4%
		• Non-insurance Expenses	3.5%	3.0%	2.7%	2.7%
		Total	113.2%[A]	110.0%	109.8%	110.1%
		Investment Return	Benchmark + 0.268%	Benchmark + 0.268%	Benchmark + 0.268%	Benchmark + 0.268%
Revenue Driven and Fiscally Responsible	• Excel in operational effectiveness and efficiency. • Minimize claims costs, severities, and frequencies through product design, claims cost controls and loss management. • Improve the value of goods and services purchased and increase the recovery of costs for services provided.	Loss Ratio	89.6%[B]	89.9%	89.9%	90.3%
		Expense Ratio				
		• Insurance Expense Ratio[C,D]	16.4%	17.1%	17.2%	17.1%
		• Non-insurance Expense Ratio	3.5%	3.0%	2.7%	2.7%
		Total	19.9%	20.1%	19.9%	19.8%
		Claims Efficiency Ratio	20.1%	20.1%	19.9%	19.7%
Customer Focused	• Increase customer approval of ICBC as a result of informed opinions and a better understanding of the value and operations of the company.	Insurance Services Satisfaction	95%	95%	93%	93%
		Driver Services Satisfaction	90%	90%	90%	90%
		Claims Services Satisfaction	81%	82%	83%	84%
Personally Accountable, Capable and Engaged People	• Increase the level of engagement of ICBC employees. • Ensure that ICBC has a workforce that is capable of meeting current and future business requirements.	Employee Engagement Index	47%[E]	50%	N/A	N/A

A Includes the impact of the margin release on unpaid claims. The combined ratio would be 120.5% if this was excluded or higher by 7.3%.
B Includes the impact of the margin release on unpaid claims. The loss ratio would be 96.9% if this was excluded or higher by 7.3%.
C Excludes acquisition cost adjustments (deferred premium acquisition costs) and other unusual items.
D Targets revised from the 2005 Service Plan. Service fees have been reclassified from expenses to revenue.
E Actual result.

ICBC's Historical and Current Strategy Overview

The table below illustrates the major themes that have characterized ICBC's strategic direction in recent years and in the period addressed by this Service Plan.

Strategic Theme	Road Safety (1996 – 2006)	Operational Excellence (2001– 2006)	Become More Competitive (2003 – 2008)
Emphasis	Prevention Reduce crashes and crime	Financial Health Operate in the most effective and efficient manner	Competitiveness Enhance products and services to customers while operating efficiently and effectively
New Strategies	• Support funding for enhanced traffic law enforcement programs and auto crime prevention programs	• Improve the value of goods and services ICBC obtains	• Build and maintain financial strength of company • Continue to position ICBC to compete effectively • Develop internal capabilities to efficiently and effectively meet regulatory framework requirements • Strengthen workforce capabilities and employee engagement
Continued Strategies	• Invest in programs to reduce crashes, crimes and claims costs • Increase business partners' participation in road safety • Develop world class expertise in transportation risk reduction	• Understand customer needs • Reduce costs and improve processes to reduce the need for premium increases • Enhance ICBC's performance-based culture • Continue to ensure financially sustainable and independent core lines of business including basic and optional insurance • Reduce crashes and crimes and their impacts on customers and premiums	• Provide customer-valued products and services • Understand customer needs • Reduce costs and improve processes to reduce the need for premium increases • Enhance ICBC's performance-based culture • Continue to ensure ICBC remains a financially sustainable and integrated business • Reduce crashes and crimes and their impacts on customers and premiums

Performance Management Systems

ICBC's financial performance measures are derived from the financial forecasts. ICBC maintains and relies on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. The system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors, who independently review and evaluate these controls. ICBC continually monitors these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted.

ICBC recognizes the inherent limitations in all control systems and believe the systems provide an appropriate balance between costs and benefits desired. ICBC believes that the systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

ICBC's non-financial performance measures are generated by external sources. Independent firms are retained to conduct ongoing surveys of customers for the purposes of monitoring satisfaction and an annual survey for the purpose of monitoring employee engagement.

Alignment with Government's Strategic Direction

ICBC's strategic direction focuses the company on providing significant value to all British Columbians, from customers who purchase its products, to those holding a BC driver's license, to individuals making a claim, to individuals and communities that benefit from a road safety investment. The goals put forward by government address specific challenges and opportunities in BC, and ICBC is committed to supporting each goal when appropriate within its mandate.

BC Government Strategic Plan	ICBC'S Strategic Direction
Great Goals	**ICBC Alignment**
1. To make BC the best educated, most literate jurisdiction on the continent.	• ICBC, through joint initiatives with schools, industry associations, brokers, and municipalities involves the general public in promoting education specific to our mandate and safe driving. • ICBC also invests in training programs for its employees.
2. To lead the way in North America in healthy living and physical fitness.	• ICBC plays a pivotal role in assuring the safety of British Columbians. Each year, the company invests in loss management and road safety programs that reduce the frequency and severity of accidents, and engages a dialogue about issues that affect individuals and their communities, from crime to fraud to safe driving.
3. To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.	• ICBC provides no-fault accident benefits for medical and rehabilitation services that assist victims in returning to work and living independently in the shortest possible time. Further, the company embraces values of integrity, fairness and community.

Summary Financial Outlook

$ millions	2005 (Outlook)	2006 (Outlook)	2007 (Outlook)	2008 (Outlook)
Premiums earned	3,110	3,207	3,366	3,502
Service	37	47	47	47
Investment income	567	404	410	427
Total revenue	3,714	3,658	3,823	3,976
Claims incurred	2,497	2,574	2,707	2,837
Claims services & loss management	290	307	318	325
Insurance operations expenses	144	159	164	167
Acquisition costs	480	392	416	433
Non-insurance expenses	110	95	92	94
Total expenses	3,521	3,527	3,697	3,856
Net income	193*	131	126	120
Full time equivalent employees (year to date average)	4,892	4,900	4,900	4,900
Capital expenditures ($ millions)	20	30	30	30

* The 2005 Outlook includes the positive impact of the margin release on unpaid claims in the amount of $227 million. If the margin was excluded ICBC would have experienced a net loss of $34 million. The 2005 outlook has changed by over $300 million from the September 2005 Service Plan update. This is due primarily to increases in bodily injury claims costs for the current and prior years and the consequential negative adjustment to deferred premium acquisition costs. It should be noted that these cost increases were partially offset by increased investment income and premiums.

Key Assumptions

- The year to date impact of claims discounting and the removal of margins on unpaid claims have been factored into the outlooks.
- No prior years' adjustments are reflected in 2006 and beyond.
- Estimated deferred premium acquisition cost adjustments are reflected in 2005. For 2006 and beyond, it is expected that there will be no adjustments required.
- The outlook is based on the status quo business model and existing cost structures.
- Return on investment (accounting): 7.9% return for 2005; 5.7% in 2006; 5.6% in 2007; and 5.7% in 2008 on average portfolio balance.
- The outlook is based on current generally accepted accounting principles.
- These results reflect the overall operations of the business including Basic and Optional insurance and Non-insurance activities.
- Claims incurred reflect current claims trends, vehicle population growth, and inflation. It also includes the anticipated increase in the court tariff for third party costs.

Forecast Risks and Sensitivities

- Premiums — 1 % fluctuation means $31 – $35 million in net premiums.
- Claims — 1 % fluctuation means $25 – $28 million impact on net income.
  1 % fluctuation in the unpaid claims balance means $47 – $50 million in claims costs.
- Investments — 1 % fluctuation in return means $72 – $76 million in investment income.
  1 % change in investment balance means $4 – $5 million in investment income.
- Market share — 1 % change in market share represents a $4 – $6 million impact on net income.

Operating Subsidiaries

Surrey City Centre Mall Ltd. (SCCM) was incorporated in 1999 as a subsidiary of ICBC Properties Ltd. (IPL). On January 1, 2004, SCCM was transferred directly to ICBC and SCCM has operated as a subsidiary of ICBC since that time.

SCCM actively manages the Central City project in Surrey. This project includes a 25-storey class A office tower and Galleria built over top of the existing retail development known as Central City Mall (formerly Surrey Place Mall). Construction was completed in 2003 with the net leasable area of the new development being 862,000 square feet. The existing retail mall is 641,000 square feet, of which SCCM owns 511,000 square feet.

The sophisticated nature of the facilities' design and amenities of the Central City development has lent itself to attracting tenants with specific space and technology requirements. For example, in 2004, Simon Fraser University (SFU) purchased net leasable space of 305,000 square feet in the Central City development to create a new Surrey campus.

In 2004, SCCM reported a net operating loss of $0.3 million, based on revenues of $11.2 million and expenses of $11.5 million. The operating loss was offset by a one-time gain of $7.5 million realized on the sale of a portion of the development. The outlook for 2005 shows a net loss of $0.9 million, based on revenues of $13.3 million and expenses of $14.2 million. These losses are attributable to the development not yet being fully leased. These financial results are included in ICBC's financial summary provided in this Service Plan.

SCCM has marketed Central City's offices as an international quality leasing opportunity. Its 2005 capital budget of $13.6 million will support new construction of retail development and other tenant improvements and allowances. These expenditures focus on realizing maximum value from the asset, with the goal of leasing additional space, particularly retail space, and generating more revenue overall. These are both key measures of performance for the company.

Today, the available space in the office development is either leased or sold. While leasing efforts continue for space that will become available in the office development, revitalization of the shopping areas of the project is becoming a larger focus of the company. SCCM is making every effort to lease up the building, with a view to bringing occupancy levels in line with other ICBC property investments.

Greater Vancouver	
Claim Centres	11
Driver Services Centres	8
Government Agents	1
Appointed Agents	5
Brokers	300

Vancouver Island	
Claim Centres	7
Driver Services Centres	3
Government Agents	5
Appointed Agents	15
Brokers	145

North/Central	
Claim Centres	8
Driver Services Centres	1
Government Agents	14
Appointed Agents	15
Brokers	66

Fraser Valley	
Claim Centres	6
Driver Services Centres	7
Government Agents	1
Appointed Agents	2
Brokers	233

Southern Interior	
Claim Centres	8
Driver Services Centres	2
Government Agents	8
Appointed Agents	32
Brokers	150

Greater Vancouver	
Claim Centres	11
Driver Services Centres	8
Government Agents	1
Appointed Agents	5
Brokers	300

Claim Centres	7
Driver Services Centres	3
Government Agents	5
Appointed Agents	15
Brokers	145

North/Central	
Claim Centres	8
Driver Services Centres	1
Government Agents	14
Appointed Agents	15
Brokers	66

Fraser Valley	
Claim Centres	6
Driver Services Centres	7
Government Agents	1
Appointed Agents	2
Brokers	233

Southern Interior	
Claim Centres	8
Driver Services Centres	2
Government Agents	8
Appointed Agents	32
Brokers	150

ICBC Points of Service

Greater Vancouver

Claims Centres
Burnaby, Lake City
Burnaby, Wayburne
Coquitlam, *
Blue Mountain St.
Maple Ridge
New Westminster
North Vancouver
Sechelt Resident Office
Squamish
Vancouver, 5th and Cambie *
Vancouver, Kingsway
Vancouver South **

Driver Services Centres
Burnaby*
Burnaby (Express)
Coquitlam
Coquitlam (Express)
North Vancouver
Vancouver East
Vancouver, Point Grey
Vancouver, Robson Square

Government Agents
Maple Ridge

Appointed Agents
Gibsons
Pemberton
Sechelt
Squamish
Whistler

Fraser Valley

Claims Centres
Abbotsford
Chilliwack
Langley
Richmond
Surrey, Guildford*
Surrey, Newton

Driver Services Centres
Abbotsford
Langley
Richmond*
Richmond (Express)
Surrey*
Surrey, Cloverdale (Express)
Surrey, Guildford (Express)

Government Agents
Chilliwack

Appointed Agents
Agassiz
Hope

Vancouver Island

Claims Centres
Campbell River
Courtenay
Duncan
Nanaimo
Port Alberni
Powell River Resident Office
Victoria*

Driver Services Centres
Nanaimo
Victoria, McKenzie Ave*
Victoria, Wharf Street (Express)

Government Agents
Campbell River
Courtenay
Duncan
Nanaimo
Port Alberni

Appointed Agents
Alert Bay
Ganges
Gold River
Ladysmith
Lake Cowichan
Mill Bay
Parksville
Port Hardy
Port McNeill
Powell River
Qualicum Beach
Sidney
Sooke
Tofino
Ucluelet

Southern Interior

Claims Centres
Cranbrook
Kamloops
Kelowna*
Nelson
Penticton
Salmon Arm
Trail
Vernon

Driver Services Centres
Kamloops
Kelowna*

Government Agents
Cranbrook
Kamloops
Nelson
Penticton
Revelstoke
Salmon Arm
Trail
Vernon

Appointed Agents
Armstrong
Ashcroft
Barriere
Castlegar
Chase
Clearwater
Clinton
Creston
Elkford
Enderby
Fernie
Golden
Grand Forks
Greenwood
Invermere
Kaslo
Keremeos
Kimberley
Lillooet
Lumby
Merritt
Midway
Nakusp
New Denver
Oliver
Osoyoos
Princeton
Salmo
Sicamous
Slocan Park
Sparwood
Summerland

North/Central

Claims Centres
Dawson Creek
Fort St. John
Prince George
Prince Rupert
Quesnel
Smithers
Terrace
Williams Lake

Driver Services Centres
Prince George

Government Agents
Atlin
Chetwynd
Dawson Creek
Dease Lake
Fort Nelson
Fort St. John
Prince George
Prince Rupert
Queen Charlotte City
Quesnel
Smithers
Stewart
Terrace
Williams Lake

Appointed Agents
Bella Coola
Burns Lake
Fort St. James
Fraser Lake
Houston
Hudson's Hope
Kitimat
Mackenzie
Masset
McBride
New Hazelton
100 Mile House
Tumbler Ridge
Valemount
Vanderhoof

Other Points of Service

ICBC on-line Claim Report:
www.icbc.com/claims-repairs

24-hour Dial-a-claim:
604-520-8222 (Lower Mainland)
1-800-910-4222
(outside LM & out of province)

* extended hours of operation ** closing March 2006

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ADDITIONAL INFORMATION

Additional information about ICBC is available at www.icbc.com

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